

Message Text

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ACTION INR-07

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CINCPAC

C O N F I D E N T I A L SEOUL 0389

CINCPAC FOR POLAD - PASS TO AMBASSADOR SNEIDER

EO 11652: GDS

TAGS: XF, OPEC, ECRE, KS

SUBJECT: SOUTH KOREA: OPEC CONSTRUCTION

REF:Y A. STATE 300529 DTD 12/23/75

B. SEOUL 9921 DTD 12/28/75

SUMMARY: THE EMBASSY IS PREPARING AN UNCLASSIFIED AIRGRAM REPORT ON DETAILS OF KOREA'S OVERSEAS CONSTRUCTION ACTIVITIES, WHICH ACHIEVED CONSIDERABLE MOMENTUM IN 1975 LOOKING TOWARD A \$10 BILLION MARKET FOR 1980. KOREA HAS THE CAPACITY TO REACH THAT GOAL WITHOUT DISLOCATION OF THE DOMESTIC LABOR MARKET. OVERSEAS PROJECTS, MOST OF WHICH ARE IN A FEW MIDDLE EAST OPEC COUNTRIES, RETURN A NET 33 PERCENT OF CONTRACT AMOUNTS IN FOREIGN EXCHANGE AND INCLUDE STIMULATION OF RELATED EXPORTS AMOUNTING TO 8 PERCENT OF CONTRACT VALUE. END SUMMARY

1. WE HAVE ASSEMBLED STATISTICAL AND OTHER INFORMATION REQUESTED REFTEL A AND WILL SUBMIT AIRGRAM REPORT. INASMUCH AS THE SUBJECT IS ONE OF WIDESPREAD GENERAL INTEREST AND INFORMATION IS FREELY AVAILABLE, REPORT WILL BE UNCLASSIFIED AND COVER ALL AREAS OF ROK OVERSEAS CONSTRUCTION ENDEAVOR WITHOUT LIMITATION TO OPEC
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COUNTRIES. TEXT AND TABLES WILL BE IN SUFFICIENT

DETAIL TO PERMIT READY IDENTIFICATION OF ACTIVITY
IN OPEC COUNTRIES BY AGENCIES WITH PARTICULAR INTERESTS.

2. WE NOTE THAT PARA ONE REF A REFERS TO POSSIBLE \$10 BILLION TOTAL OVER THE NEXT FIVE YEARS. IN FACT, ROKG AND INDUSTRY PLANNING CALLS FOR ACTIVITIES WHICH WILL LEAD TO OBTAINING \$10 BILLION TOTAL FOR 1980 ALONE. THE ACTUAL CUMULATIVE TOTAL FOR OVERSEAS CONSTRUCTION PROJECTS AT THE CLOSE OF THAT YEAR WOULD THEN BE A FIGURE IN THE RANGE OF \$20 TO \$26 BILLION, OF WHICH A HIGH PERCENTAGE WOULD BE IN OPEC MEMBER COUNTRIES.

3. IT IS DIFFICULT TO FORESEE ALL THE POLITICO-ECONOMIC VARIABLES WHICH MIGHT AFFECT ROK CHANCES OF ATTAINING ITS HIGHLY AMBITIOUS OVERSEAS CONSTRUCTION GOALS. HOWEVER, ASSUMING CONTINUED POLITICAL STABILITY AND PEACE IN KOREA AND IN OVERSEAS CONSTRUCTION MARKETS IN AFRICA, LATIN AMERICA AND THE MIDDLE EAST, NO INSURMOUNTABLE BARRIERS APPEAR ON THE PATH THAT THE KOREAN CONSTRUCTION INDUSTRY HAS CHOSEN FOR ITSELF.

4. TYPICALLY, KOREAN EXPANSION HAS BEEN PRECEDED BY EXHAUSTIVE MARKET SURVEYS OF POTENTIAL AREAS OF OPPORTUNITY UNDERTAKEN BY THE INDUSTRY AS A WHOLE WITH THE FULL COOPERATION OF THE ROKG. CAPACITY TO ABSORB INCREASING COMMITMENTS IN THE YEARS AHEAD IS ILLUSTRATED BY THE FACT THAT THUS FAR ONLY 35 FIRMS (OUT OF 600 CONSTRUCTION FIRMS) AND ABOUT 4,500 ON SITE PERSONNEL (OUT OF THE 598,00 PRESENTLY EMPLOYED BY THE INDUSTRY) ARE CURRENTLY INVOLVED IN HANDLING ABOUT \$1.5 BILLION IN OVERSEAS CONTRACTS. GIVEN A YOUNG AND EFFICIENT MALE WORK FORCE OF 7 MILLION, WIDESPREAD DOMESTIC UNDEREMPLOYMENT AND OPPORTUNITY FOR TRAINING TO EARN TAX-FREE WAGES MORE THAN FOUR TIMES AS HIGH AS THE DOMESTIC AVERAGE, THERE IS LITTLE LIKELIHOOD OF LABOR SHORTAGE OR SIGNIFICANT IMPACT ON THE DOMESTIC LABOR MARKET IN THE FIVE YEARS AHEAD. GOVERNMENT AND INDUSTRY OFFICIALS FORESEE UNLIMITED DEMAND AND ARE CONCERNED ONLY BY MAJOR BIDS THAT THEY HAVE NOT BEEN ABLE TO PURSUE BECAUSE OF INABILITY TO MUSTER
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THE LARGE SUMS OR COLLATERAL REQUIRED FOR PERFORMANCE BONDS OR LETTERS OF GUARANTEE. INASMUCH AS KOREAN SUCCESS THUS FAR RESULTS FROM BEING ABLE TO OFFER ECONOMIC CONSTRUCTION SERVICES MEETING INTERNATIONAL STANDARDS WITHIN CONTRACT DEADLINES, A MOMENTUM IS DEVELOPING WHICH OF ITSELF CAN FACILITATE RESOLUTION OF ANY FINANCIAL OR OTHER ECONOMIC WEAKNESSES. THE MAJOR ADVANTAGES OF THESE SERVICE ACTIVITIES TO KOREA

ARE (A) A NET FOREIGN EXCHANGE EARNING RATE OF 33 PERCENT OF THE CONTRACT AMOUNT, (B) RELIEF OF DOMESTIC UNDEREMPLOYMENT, (C) WIDENED OPPORTUNITY FOR EXPORTS WHICH AVERAGE ABOUT 8 PERCENT OF CONTRACT, AND (D) VIRTUALLY UNLIMITED POTENTIAL FOR GROWTH. THIS LATTER POINT IS SIGNIFICANT BECAUSE EXPORTS OF CONSTRUCTION SERVICES CREATE IMMEDIATE AND VISIBLE BENEFITS, INCLUDING JOB OPPORTUNITIES FOR LOCAL UNSKILLED AND SEMISKILLED LABOR IN TARGETCOUNTRIES. THEREFORE, IN CONTRAST TO OTHER MAJOR EXPORTS, THEY DO NOT FACE RISK OF NONTARIFF BARRIERS SUCH AS QUOTAS WHICH, IN THE KOREAN EXPERIENCE, SEEM TO HIT JUST AS KOREA BECOMES PROFICIENT IN MANUFACTURE OF A PARTICULAR PRODUCT FOR EXPORT.

5. FORTHCOMING UNCLASSIFIED INDUSTRY REPORT WILL BEAR SAME TAGS BUT WITHOUT REPEATING REFERENCES ABOVE.
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